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# Marblehead Retirement System

## Actuarial Valuation Report

January 1, 2014

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**PUBLIC EMPLOYEE RETIREMENT ADMINISTRATION COMMISSION**  
COMMONWEALTH OF MASSACHUSETTS



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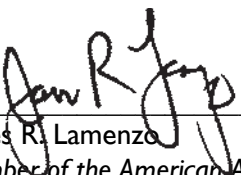
# I. INTRODUCTION & CERTIFICATION

This report presents the results of the actuarial valuation of the Marblehead Contributory Retirement System. The valuation was performed as of January 1, 2014 pursuant to Chapter 32 of the General Laws of the Commonwealth of Massachusetts.

This valuation was based on member data as of December 31, 2013, which was supplied by the Retirement Board. Such tests as we deemed necessary were performed on the data to ensure accuracy. Asset information as of December 31, 2013 was provided in the Annual Statement for the Financial Condition as submitted to this office in accordance with G.L. c. 32, ss. 20(5)(h), 23(1) and 23(2)(e). Both the membership data and financial information were reviewed for reasonableness, but were not audited by us.

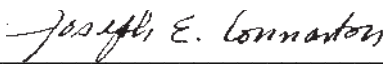
I am a member of the Academy of Actuaries and meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion contained in this report. In my opinion, the actuarial assumptions used in this report are reasonable, are related to plan experience and expectations, and represent our best estimate of anticipated experience under the system. I believe this report represents an accurate appraisal of the actuarial status of the system performed in accordance with generally accepted actuarial principles and practices relating to pension plans.

Respectfully submitted,  
Public Employee Retirement Administration Commission



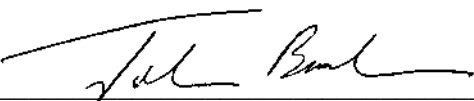
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James R. Lamenzo  
Member of the American Academy of Actuaries  
Associate of the Society of Actuaries  
Enrolled Actuary Number 14-4709



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Joseph E. Connarton  
Executive Director



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John F. Boorack  
Senior Actuarial Associate

July 31, 2014

## 2. EXECUTIVE SUMMARY

### PART A | COSTS UNDER CURRENT VALUATION

The principal results of the January 1, 2014 actuarial valuation are shown below.

#### Present Value of Future Benefits

Actives	\$66,979,718
Retirees, Survivors, and Inactives	<u>78,067,470</u>
Total	\$145,047,188

#### Normal Cost

Total Normal Cost	\$2,649,932
Expected Employee Contributions	<u>1,653,818</u>
Net Normal Cost	<u>\$996,114</u>

#### Actuarial Liability and Development of Unfunded Actuarial Liability

Actives	\$44,240,130
Retirees, Survivors, and Inactives	<u>78,067,470</u>
Total	\$122,307,600
Assets	<u>81,979,599</u>
Unfunded Actuarial Liability	<u>\$40,328,001</u>

The Board recently adopted a funding schedule effective in FY15. The appropriation for FY15 under this funding schedule is shown on page 10 and the complete funding schedule is shown on page 11.

## 2. EXECUTIVE SUMMARY *(continued)*

### PART B | COMPARISON WITH PRIOR VALUATION

The last full valuation was performed by Stone Consulting, Inc. as of January 1, 2012. The 2012 valuation used an investment return assumption of 8.0%. The investment return assumption was decreased from 8.0% to 7.75% effective with this valuation. The salary increase assumption has been modified to reflect PERAC's standard assumption with the revised investment return assumption. Likewise, the mortality assumption has been modified to reflect our standard mortality assumption in 2014. More details on these assumption changes are provided in Part C.

Our Local Experience Study Analysis (issued in March, 2002) forms the basis for other plan assumptions.

Below we have shown a comparison of the results between the two valuations.

	PERAC 1/1/14	Stone 1/1/12	Increase (Decrease)	% Increase (Decrease)
Total Normal Cost	\$2,649,932	\$2,033,753	\$616,179	30.3%
Expected Employee Contributions	<u>1,653,818</u>	<u>1,458,376</u>	<u>195,442</u>	13.4%
Net Normal Cost	<u>\$996,114</u>	<u>\$575,377</u>	<u>\$420,737</u>	73.1%
Actuarial Liability				
Actives	\$44,240,130	\$41,473,221	\$2,766,909	6.7%
Retirees and Inactives	<u>78,067,470</u>	<u>66,819,904</u>	<u>11,247,566</u>	16.8%
Total	\$122,307,600	\$108,293,125	\$14,014,475	12.9%
Assets	<u>81,979,599</u>	<u>79,866,225</u>	<u>2,113,374</u>	2.6%
Unfunded Actuarial Liability	<u>\$40,328,001</u>	<u>\$28,426,900</u>	<u>\$11,901,101</u>	41.9%
Funded Ratio	67.0%	73.8%	(6.8%)	

## 2. EXECUTIVE SUMMARY *(continued)*

### PART B | COMPARISON WITH PRIOR VALUATION *(continued)*

Actives	PERAC 1/1/14	Stone 1/1/12	% Difference
Number	436	339	28.6%
Total Payroll	\$18,842,144	\$16,564,039	13.8%
Average Salary	\$43,216	\$48,861	(11.6%)
Average Age	47.8	48.9	(2.2%)
Average Service	10.0	12.4	(19.4%)

Retirees and Survivors	PERAC 1/1/14	Stone 1/1/12	% Difference
Number	342	332	3.0%
Total Benefits*	\$7,900,940	\$6,962,379	13.5%
Average Benefits*	\$23,102	\$20,971	10.2%
Average Age	73.9	73.2	1.0%

*\*excluding State reimbursed COLA*

## 2. EXECUTIVE SUMMARY *(continued)*

### PART C | PLAN EXPERIENCE AND CHANGES FROM PRIOR VALUATION

#### **Plan Experience**

##### *Plan Liabilities*

Stone Consulting, Inc. (Stone) performed the most recent actuarial valuation as of January 1, 2012. Since we did not perform this valuation, it is more difficult to reconcile and compare our results to those of the 2012 valuation. However, we found the 2012 valuation results to be reasonable.

To perform the gain/loss analysis, we used the 8.0% investment return assumption and the salary increase assumption used in the January 1, 2012 actuarial valuation together with our standard assumptions. These are the same principal assumptions used in the 2012 valuation. We found the 2014 results were reasonable when compared with the 2012 results. We estimate that there was a loss on plan liabilities (the actuarial liability exceeded the expected actuarial liability) from the prior valuation of \$3 - \$4 million over the 2-year period. Aside from actual plan experience, a portion of this loss reflects new members (see next paragraph), data issues, and the change in actuarial software. However, since we did not perform the prior valuation, we cannot readily determine the magnitude of the various components of the loss.

Note that the number of active members increased significantly from 2012 due to a change in the System's membership regulations. There were approximately 130 school employees who became members of the System since January 1, 2012. Many of these members purchased past service. We estimated the actuarial liability increased approximately \$2.7 million due to the addition of these members.

##### *Plan Assets*

The Marblehead Retirement Board previously adopted an asset smoothing technique in determining the AVA. As of January 1, 2014, the AVA is \$82.0 million compared with the market value of \$87.2 million. The rates of return on a market value basis in 2012 and 2013 were 13.9% and 15.3% respectively.

In the 2012 valuation, due to the significant investment loss in 2008, the calculated AVA was greater than 110% of the market value. Therefore, the asset corridor ceiling of 110% of the market value was used. As of January 1, 2014 the 2008 loss has been completely recognized. However, the final recognition of the 2008 loss outweighed the recognition of the investment return gains during 2012 and 2013 and generated an asset loss of approximately \$3.9 million over the 2-year period on an actuarial value basis.

##### *Total*

There was a total net loss of approximately \$6.9 - \$7.9 million since the last valuation (\$3 - \$4 million loss on actuarial liability plus \$3.9 million loss on the actuarial value of assets).



## 2. EXECUTIVE SUMMARY *(continued)*

### PART C | PLAN EXPERIENCE AND CHANGES FROM PRIOR VALUATION *(continued)*

#### **Actuarial Assumptions**

##### *Investment Return*

For local retirement systems, PERAC's "standard" investment return assumption was 8.0% in our 2012 actuarial valuations. This had been our standard assumption (assuming a reasonable asset allocation) for over 15 years. We believe this assumption could still be considered reasonable as of January 1, 2014. However, based on the current environment, asset allocation, and future expected returns, we recommended that the investment return assumption be decreased to 7.75% in this valuation (we first used an investment return assumption of 7.75% in our January 1, 2013 actuarial valuations for local systems). The trend both in Massachusetts and across the country over the past 10 years has been to reduce this assumption. A reduction in the investment return assumption increases the plan's liabilities.

This change increased the total normal cost by approximately \$127,000 and the total actuarial accrued liability by approximately \$2.8 million.

##### *Salary increase*

In the current environment, we believe PERAC's standard salary increase assumption used in our 2012 local valuations was conservative. Therefore, we have lowered our standard salary increase assumption in conjunction with the investment return assumption change. This change decreases the plan's liability. Over the long term, the investment return assumption and the salary increase assumption should move together. This is because both assumptions have an inflation component. The change in the salary increase assumption partially mitigates the impact of the change in the investment return assumption.

PERAC's prior salary increase assumption was based on job group and service. The largest increases were in the first few years of service. The assumption graded down each year to an ultimate rate of 4.75% - 5.25% after 10 years of service. For the past 4-5 years, most plans have had significant actuarial gains due to actual salary increases being less than assumed. Our revised assumption slightly reduces the assumption at each year of service. The revised ultimate rates are 4.25% - 4.75%. Although these may still seem somewhat high in the current environment, these are intended to be long term, not short term, rates.

The assumption used in the January 1, 2012 actuarial valuation by Stone is comparable to the assumption used in our January 1, 2014 actuarial valuation. This change from the Stone assumption to the PERAC assumption increased the total normal cost by approximately \$20,000 and the total actuarial accrued liability by approximately \$125,000.

## 2. EXECUTIVE SUMMARY *(continued)*

### PART C | PLAN EXPERIENCE AND CHANGES FROM PRIOR VALUATION *(continued)*

#### *Mortality*

In local actuarial valuations performed by PERAC as of January 1, 2010, we used the RP-2000 mortality table. This is a standard table we have used since 2002 and is based on an experience analysis of local systems we performed in 2002. A revision to the actuarial standards of practice in 2010 required that future mortality improvements (longer life expectancy) be considered in valuations performed after July, 2011. To begin recognizing this change, as part of our January 1, 2011 local actuarial valuations, we used the RP-2000 mortality table adjusted 10 years with Scale AA which projects mortality improvement. In our 2012 and 2013 valuations, to reflect future mortality improvement, we extended the mortality improvement scale beyond the valuation date (to approximately 2020 for active members and 2015 for retirees). We will extend the mortality improvement assumption two years in our 2014 valuations. Therefore, the projection is to 2022 for active members and 2017 for retirees.

A revised mortality table, developed in the same manner as the current table, has been released as a draft and will be published later this year. The primary difference between the revised table and the current table is the projection scale for future mortality improvement. The revised table has limited experience related to public plans. It is not clear at this time how the revised table might affect the mortality assumption we would recommend for your 2016 actuarial valuation when we consider actual mortality experience for local systems.

This change increased the employer normal cost by approximately \$20,000 and the total actuarial liability by approximately \$1.7 million.

#### *Overall Impact*

The overall impact of these assumption changes increased the plan's actuarial liability by approximately \$4.6 million. The total normal cost increased by \$167,000. The funding schedule shown in this report reflects these revised assumptions.

### **Chapter 176 Provisions**

Chapter 176 of the Acts of 2011, *An Act Providing for Pension Reform and Benefit Modernization* made a number of changes to the Chapter 32 pension law. There are several changes that will have the most impact on decreasing plan liabilities over the longer term. These include an increase in the normal retirement age by two years (for example, from age 65 to age 67 for Group 1 members), an increase in the age (early retirement) reduction factor for ages below the maximum age (from a 4.0% to a 6.0% annual reduction), and an increase in the period for determining a member's average annual compensation (from 3 years to 5 years). Since these changes are effective only for members hired after April 1, 2012, this is the first actuarial valuation to reflect these changes.

As of January 1, 2014, there were 148 members hired after April 1, 2012. Since these members have short service and are generally young, there is relatively little impact on plan costs in this valuation. The normal cost decreased approximately \$154,000 and the actuarial liability decreased approximately \$770,000 for these members compared to the figures under the prior provisions.

## 2. EXECUTIVE SUMMARY *(continued)*

### PART C | PLAN EXPERIENCE AND CHANGES FROM PRIOR VALUATION *(continued)*

#### **Funding Schedule**

The funding schedule presented in this report was recently adopted by the board. The FY15 payment was maintained from the prior schedule. The schedule has the total appropriation increasing 8% each year through FY35 with a final amortization payment in FY36.

#### **GASB 67/68**

The results of this valuation will be used to implement two statements of the Governmental Accounting Standards Board (GASB) that replace GASB 25 and GASB 27. The statements are commonly referred to as GASB 67 and GASB 68. GASB 67 relates to financial reporting for state and local government pension plans (plan financials) and is effective for fiscal years beginning after June 15, 2013. GASB 68 relates to financial reporting by state and local governments for pension plans (employer financials) and is effective for fiscal years beginning after June 15, 2014. We have not provided any GASB 67/68 exhibits in this report. We will work with the Town, retirement board, and auditor to complete the necessary disclosures.

### 3. SUMMARY OF VALUATION RESULTS

A. Number of Members on Current Valuation Date	
Active Members	436
Vested Terminated Members	11
Retired Members and Survivors	<u>342</u>
Total	789
B. Total Regular Compensation of Active Members	\$18,842,144
C. Normal Cost	
Superannuation	\$1,804,567
Death	170,172
Disability	446,912
Termination	<u>228,281</u>
Total Normal Cost	\$2,649,932
Expected Employee Contributions	<u>1,653,818</u>
Net Employer Normal Cost	\$996,114
D. Actuarial Liability	
Active	
Superannuation	\$40,613,180
Death	810,784
Disability	2,076,519
Termination	<u>739,647</u>
Total Active	\$44,240,130
Vested Terminated Members	1,027,573
Non-Vested Terminated Members	306,650
Retirees and Survivors	<u>76,733,247</u>
Total Actuarial Liability	\$122,307,600
E. Actuarial Value of Assets	81,979,599
F. Unfunded Actuarial Liability: D – E	\$40,328,001
G. Funded Ratio: E/D	67.0%

## 4. APPROPRIATION DEVELOPMENT FOR FISCAL YEAR 2015

### PART A | DERIVATION OF APPROPRIATION

#### Cost Under Current Funding Schedule

1. a. Normal Cost as of January 1, 2014	\$996,114
b. For FY15 (adjusted for timing) (a)	\$1,034,713
c. Estimated Expenses	\$175,000
d. Total Employer Normal Cost (b+c)	\$1,209,713
2. a. Unfunded Actuarial Liability as of January 1, 2014	\$40,328,001
b. FY15 amortization payment (22-year, 8% increasing total appropriation) *	\$1,566,223
3. Total FY15 Payment [Sum of 1(d) and 2(b)]	\$2,775,936

\* FY15 appropriation was maintained at the same level as the prior schedule.

All amounts assume payments will be made July 1 of each fiscal year.

## 4. APPROPRIATION DEVELOPMENT FOR FISCAL YEAR 2015 *(continued)*

### PART B | CURRENT FUNDING SCHEDULE

<b>Fiscal Year</b>	<b>Normal Cost</b>	<b>Amort. of UAL</b>	<b>Total Cost</b>	<b>Unfunded Act. Liab.</b>
2015	1,209,713	1,566,223	2,775,936	41,890,711
2016	1,264,151	1,733,860	2,998,011	43,449,636
2017	1,321,037	1,916,814	3,237,852	44,948,749
2018	1,380,484	2,116,396	3,496,880	46,366,909
2019	1,442,606	2,334,025	3,776,630	47,679,928
2020	1,507,523	2,571,238	4,078,761	48,860,211
2021	1,575,362	2,829,700	4,405,062	49,876,369
2022	1,646,253	3,111,214	4,757,466	50,692,785
2023	1,720,334	3,417,730	5,138,064	51,269,144
2024	1,797,749	3,751,360	5,549,109	51,559,898
2025	1,878,648	4,114,390	5,993,038	51,513,701
2026	1,963,187	4,509,294	6,472,481	51,072,757
2027	2,051,531	4,938,749	6,990,279	50,172,132
2028	2,143,849	5,405,652	7,549,501	48,738,971
2029	2,240,323	5,913,139	8,153,462	46,691,651
2030	2,341,137	6,464,601	8,805,738	43,938,847
2031	2,446,488	7,063,709	9,510,198	40,378,500
2032	2,556,580	7,714,433	10,271,013	35,896,687
2033	2,671,626	8,421,068	11,092,694	30,366,379
2034	2,791,850	9,188,260	11,980,110	23,646,072
2035	2,917,483	10,021,036	12,938,519	15,578,292
2036	3,048,770	5,987,943	9,036,713	5,987,944
2037	3,185,964		3,185,964	0

All amounts assume payments will be made July 1 of each fiscal year.

Total appropriation increases 8% each year through FY35 with a final payment in FY36.

FY15 normal cost includes assumed expenses of \$175,000 and is assumed to increase 4.5% per year.

FY15 appropriation was maintained at the same level as the prior schedule.

## 5. GASB STATEMENT NO. 25: ACTUARIAL INFORMATION

The actuarial information required by Governmental Accounting Standards Board (GASB) Statement No. 25 is shown below.

### Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL)* (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Cov. Payroll ((b-a)/c)
1/1/2014	\$81,979,599	\$122,307,600	\$40,328,001	67.0%	\$18,842,144	214.0%
1/1/2012	\$79,866,225	\$108,293,125	\$28,426,900	73.8%	\$16,564,039	171.6%
1/1/2010	\$77,353,879	\$98,858,864	\$21,504,985	78.2%	\$15,492,864	138.8%

\*excludes State reimbursed COLA

### Notes To Schedules

Additional information as of the latest actuarial valuation follows.

Valuation Date	January 1, 2014
Actuarial Cost Method	Individual entry age normal
Amortization Method	Total appropriation increases 8% each year
Remaining Amortization Period	22 years
Asset Valuation Method	Actuarial value, 5-year smoothing

### Principal Actuarial Assumptions:

Investment Rate of Return	7.75%
Projected Salary Increases	Service based table with ultimate rates of 4.25%, 4.50%, and 4.75% for groups 1, 2, and 4 respectively.

## 6. PLAN ASSETS

### A | BREAKDOWN OF ASSETS BY INVESTMENT TYPE

Cash and Cash Equivalents	\$14,703
PRIT Cash	342,055
PRIT Fund	86,865,145
Accounts Receivable	5,243
Accounts Payable	(1,524)
Total	\$87,225,622

### B | BREAKDOWN OF ASSETS BY FUND

Annuity Savings Fund	\$16,178,441
Annuity Reserve Fund	6,970,486
Military Fund	3,093
Pension Fund	963,626
Pension Reserve Fund	<u>63,109,976</u>
Total	\$87,225,622

C | MARKET VALUE OF ASSETS \$87,225,622

D | ACTUARIAL VALUE OF ASSETS \$81,979,599



## 6. PLAN ASSETS *(continued)*

### E | DEVELOPMENT OF ACTUARIAL VALUE OF ASSETS

	2013	2014
<b>A. Development of total investment income including appreciation</b>		
1. Beginning of year market value	79,219,308	87,225,622
2a. Employee contributions	1,777,062	
b. Employer contributions	2,669,170	
c. Other receipts	515,867	
d. Total receipts: (a) + (b) + (c)	4,962,099	
e. Benefit payments	7,864,924	
f. Expenses	598,342	
g. Other disbursements	328,647	
h. Total disbursements: (e) + (f) + (g)	8,791,913	
i. Cash flow: (d) – (h)	(3,829,814)	
3. End of year market value	87,225,622	
4. Investment income including appreciation: (3) – (1) – (2(i))	11,836,128	
<b>B. Expected market value development</b>		
1. Beginning of year market value	79,219,308	
2. Cash flow (A2(i))	(3,829,814)	
3. Expected Return on (1)	6,337,545	
4. Expected return on cash flow A2(i) x 0.08 / 2	(153,193)	
5. Expected market value end of year (1)+(2)+(3)+(4)	81,573,846	
<b>C. Gain/(loss) for year: A3-B5</b>	5,651,776	
<b>D. Development of Actuarial Value of Assets</b>		
1. Beginning of year market value	79,219,308	87,225,622
2a. Asset gain/(loss) in prior year	4,121,373	5,651,776
b. Asset gain/(loss) in 2 <sup>nd</sup> prior year	(6,062,310)	4,121,373
c. Asset gain/(loss) in 3 <sup>rd</sup> prior year	3,383,516	(6,062,310)
d. Asset gain/(loss) in 4 <sup>th</sup> prior year	5,308,545	3,383,516
3. Unrecognized gain/(loss) .8 x [2a] + .6 x [2b] + .4 x [2c] +.2 x [2d]	2,074,827	5,246,023
4. Beginning of year actuarial value of assets: [1] - [3]	77,144,481	81,979,599
5. Actuarial value / Market value	97.4%	94.0%
6. Adjusted actuarial value: (4) but not less than 90% nor greater than 110% of market value	77,144,481	81,979,599

## 7. INFORMATION ON SYSTEM MEMBERSHIP

A critical element of an actuarial valuation is accurate and up-to-date membership information. PERAC conducted an extensive review of member data submitted for this valuation.

### PART A | ACTIVE MEMBERS

	Actives	Vested Terminations
Number of Members	436	11
Average Age	47.8	52.4
Average Service	10.0	13.0
Average Salary	\$43,216	\$36,913
Average Annuity Savings Fund Balance	\$35,449	\$34,176

### Age by Service Distribution of Active Members

Present Age	Years of Service							Total
	0 - 4	5 - 9	10 - 14	15 - 19	20 - 24	25 - 29	30+	
0 - 24	26							26
25 - 29	18	5						23
30 - 34	18	13	4					35
35 - 39	10	12	11	1				34
40 - 44	19	9	6	9				43
45 - 49	22	13	9	13	6	3		66
50 - 54	22	17	11	4	4	7	2	67
55 - 59	13	12	18	13	4	3	5	68
60 - 64	6	12	13	10	3	1	7	52
65+	0	6	5	3	1	4	3	22
Total	154	99	77	53	18	18	17	436

## 7. INFORMATION ON SYSTEM MEMBERSHIP *(continued)*

### PART A | ACTIVE MEMBERS *(continued)*

#### Salary by Age Distribution of Active Members

Present Age	Number of Members	Total Salary	Average Salary
0 - 24	26	\$581,924	\$22,382
25 - 29	23	\$843,168	\$36,659
30 - 34	35	\$1,691,058	\$48,316
35 - 39	34	\$1,621,355	\$47,687
40 - 44	43	\$1,917,058	\$44,583
45 - 49	66	\$3,096,224	\$46,912
50 - 54	67	\$2,897,498	\$43,246
55 - 59	68	\$2,895,418	\$42,580
60 - 64	52	\$2,427,104	\$46,675
65+	22	\$871,337	\$39,606
Total	436	\$18,842,144	\$43,216

## 7. INFORMATION ON SYSTEM MEMBERSHIP *(continued)*

### PART B | RETIREES AND SURVIVORS

	Superannuation	Ordinary Disability	Accidental Disability	Survivors	Total
Number of Members	272	2	19	49	342
Average Age	73.0	61.8	65.2	83.3	73.9
Average Annual Benefit	\$24,394	\$20,989	\$31,822	\$14,673	\$23,394

### Benefit by Payment and Retirement Type

	Superannuation	Ordinary Disability	Accidental Disability	Survivors	Total
Total Annuity	\$1,168,507	\$2,705	\$45,560	\$60,321	\$1,277,093
Pension (excluding State reimbursed COLA)	\$5,419,753	\$39,273	\$546,366	\$618,455	\$6,623,847
State reimbursed COLA	\$46,807	\$0	\$12,690	\$40,195	\$99,692
Total	\$6,635,067	\$41,978	\$604,616	\$718,971	\$8,000,632

## 7. INFORMATION ON SYSTEM MEMBERSHIP *(continued)*

### PART B | RETIREES & SURVIVORS *(continued)*

#### Benefit by Age Distribution

Present Age	Number of Members	Total Benefits	Average Benefits
Less than 40	0	\$0	\$0
40 - 44	1	\$40,993	\$40,993
45 - 49	2	\$54,672	\$27,336
50 - 54	4	\$123,365	\$30,841
55 - 59	21	\$784,602	\$37,362
60 - 64	57	\$1,739,671	\$30,521
65 - 69	53	\$1,543,063	\$29,114
70 - 74	58	\$1,352,763	\$23,324
75 - 79	36	\$767,127	\$21,309
80 - 84	44	\$675,679	\$15,356
85 - 89	38	\$618,472	\$16,276
90+	28	\$300,225	\$10,722
Totals	342	\$8,000,632	\$23,394

## 8. VALUATION COST METHODS

### PART A | ACTUARIAL COST METHOD

The Actuarial Cost Method which was used to determine pension liabilities in this valuation is known as the *Entry Age Normal Cost Method*. Under this method the *Normal Cost* for each active member on the valuation date is determined as the level percent of salary, which, if paid annually from the date the employee first became a member of the retirement system, would fully fund by retirement, death, disability or termination, the projected benefits which the member is expected to receive. The *Actuarial Liability* for each member is determined as the present value as of the valuation date of all projected benefits which the member is expected to receive, minus the present value of future annual Normal Cost payments expected to be made to the fund. Since only active members have a Normal Cost, the Actuarial Liability for inactives, retirees and survivors is simply equal to the present value of all projected benefits. The sum of Normal Cost and Actuarial Liability for each member is equal to the Normal Cost and Actuarial Liability for the Plan. The *Unfunded Actuarial Liability* is the Actuarial Liability less current assets.

The Normal Cost for a member will remain a level percent of salary for each year of membership except for changes in provisions of the Plan or the actuarial assumptions employed in projection of benefits and present value determinations. The Normal Cost for the entire system will also change due to the addition of new members or the retirement, death or termination of members. The Actuarial Liability for a member will increase each year to reflect the additional accrual of Normal Cost. It will also change if the Plan provisions or actuarial assumptions are changed.

Differences each year between the actual experience of the Plan and the experience projected by the actuarial assumptions are reflected by adjustments to the Unfunded Actuarial Liability. An experience difference which increases the Unfunded Actuarial Liability is called an *Actuarial Loss* and one which decreases the Unfunded Actuarial Liability is called an *Actuarial Gain*.

### PART B | ASSET VALUATION METHOD

The actuarial value of assets is determined in accordance with the deferred recognition method under which 20% of the gains or losses occurring in the prior year are recognized, 40% of those occurring 2 years ago, etc., so that 100% of gains or losses occurring 5 years ago are recognized. The actuarial value of assets will be adjusted, if necessary, in order to remain between 90% and 110% of market value.

## 9. ACTUARIAL ASSUMPTIONS

### INVESTMENT RETURN

7.75% per year

### INTEREST RATE CREDITED TO THE ANNUITY

### SAVINGS FUND

3.5% per year

### COST OF LIVING INCREASES

3.0% per year (of the first \$12,000)

### SALARY INCREASE

Service	Group 1	Group 2	Group 4
0	6.00%	6.00%	7.00%
1	5.50%	5.50%	6.50%
2	5.50%	5.50%	6.00%
3	5.25%	5.25%	5.75%
4	5.25%	5.25%	5.25%
5	4.75%	4.75%	5.25%
6	4.75%	4.75%	4.75%
7	4.50%	4.50%	4.75%
8	4.50%	4.50%	4.75%
9	4.25%	4.50%	4.75%
10+	4.25%	4.50%	4.75%

### MORTALITY

Pre-retirement rates reflect the RP-2000 Employees table projected 22 years with Scale AA (gender distinct). Post-retirement rates reflect the RP- 2000 Healthy Annuitant table projected 17 years with Scale AA (gender distinct). For disabled retirees, this table is set forward 3 years for males. It is assumed that 55% of pre-retirement deaths are job-related for Group 1 and 2 members and 90% are job-related for Group 4 members. For members retired under an Accidental Disability, 40% of deaths are assumed to be from the same cause as the disability.

## 9. ACTUARIAL ASSUMPTIONS *(continued)*

### WITHDRAWAL

Based on analysis of past experience. Annual rates are based on years of service. Sample annual rates for Groups 1 and 2 are shown below. For Group 4 members the rate is 0.015 each year for service up to and including 10 years. No withdrawal is assumed thereafter.

Service	Groups 1 & 2
0	0.150
5	0.076
10	0.054
15	0.033
20	0.020

### DISABILITY

Based on an analysis of past experience. It is also assumed that the percentage of job-related disabilities is 55% for Groups 1 & 2 and 90% for Group 4.

Age	Groups 1 & 2	Group 4
20	0.00010	0.0010
30	0.00030	0.0030
40	0.00101	0.0030
50	0.00192	0.0125
60	0.00280	0.0085

### EXPENSES

An amount of \$175,000 has been included in the Normal Cost for FY15. This amount includes estimated administrative expenses and a portion of the investment related expenses. This amount is assumed to increase by 4.5% each year.



## 9. ACTUARIAL ASSUMPTIONS *(continued)*

### RETIREMENT (SUPERANNUATION)

Age	Groups 1 & 2		Group 4
	Male	Female	
45-49	0.000	0.000	0.010
50	0.010	0.015	0.020
51	0.010	0.015	0.020
52	0.010	0.020	0.020
53	0.010	0.025	0.050
54	0.020	0.025	0.075
55	0.020	0.055	0.150
56	0.025	0.065	0.100
57	0.025	0.065	0.100
58	0.050	0.065	0.100
59	0.065	0.065	0.150
60	0.120	0.050	0.200
61	0.200	0.130	0.200
62	0.300	0.150	0.250
63	0.250	0.125	0.250
64	0.220	0.180	0.300
65	0.400	0.150	1.000
66	0.250	0.200	1.000
67	0.250	0.200	1.000
68	0.300	0.250	1.000
69	0.300	0.200	1.000
70 and after	1.000	1.000	1.000

## 10. SUMMARY OF PLAN PROVISIONS

### ADMINISTRATION

There are 105 contributory retirement systems for public employees in Massachusetts. Each system is governed by a retirement board and all boards, although operating independently, are governed by Chapter 32 of the Massachusetts General Laws. This law in general provides uniform benefits, uniform contribution requirements and a uniform accounting and funds structure for all systems.

### PARTICIPATION

Participation is mandatory for all full-time employees. Eligibility with respect to part-time, provisional, temporary, seasonal or intermittent employment is governed by regulations promulgated by the retirement board, and approved by PERAC. Membership is optional for certain elected officials.

There are 3 classes of membership in the retirement system:

**Group 1:**

General employees, including clerical, administrative, technical and all other employees not otherwise classified.

**Group 2:**

Certain specified hazardous duty positions.

**Group 4:**

Police officers, firefighters, and other specified hazardous positions.

### MEMBER CONTRIBUTIONS

Member contributions vary depending on the most recent date of membership:

Prior to 1975:	5% of regular compensation
1975 - 1983:	7% of regular compensation
1984 to 6/30/96:	8% of regular compensation
7/1/96 to present:	9% of regular compensation
1979 to present:	an additional 2% of regular compensation in excess of \$30,000.

In addition, members of Group 1 who join the system on or after April 2, 2012 will have their withholding rate reduced to 6 % after achieving 30 years of creditable service.

## 10. SUMMARY OF PLAN PROVISIONS *(continued)*

### RATE OF INTEREST

Interest on regular deductions made after January 1, 1984 is a rate established by PERAC in consultation with the Commissioner of Banks. The rate is obtained from the average rates paid on individual savings accounts by a representative sample of at least 10 financial institutions.

### RETIREMENT AGE

The mandatory retirement age for some Group 2 and Group 4 employees is age 65. Most Group 2 and Group 4 members may remain in service after reaching age 65. Group 2 and Group 4 members who are employed in certain public safety positions are required to retire at age 65. There is no mandatory retirement age for employees in Group 1.

### SUPERANNUATION RETIREMENT

A person who became a member before April 2, 2012 is eligible for a superannuation retirement allowance (service retirement) upon meeting the following conditions:

- completion of 20 years of service, or
- attainment of age 55 if hired prior to 1978, or if classified in Group 4, or
- attainment of age 55 with 10 years of service, if hired after 1978, and if classified in Group 1 or 2

A person who became a member on or after April 2, 2012 is eligible for a superannuation retirement allowance (service retirement) upon meeting the following conditions:

- attainment of age 60 with 10 years of service if classified in Group 1, or
- attainment of age 55 with 10 years of service if classified in Group 2, or
- attainment of age 55 if hired prior to 1978, or if classified in Group 4.

## 10. SUMMARY OF PLAN PROVISIONS *(continued)*

### AMOUNT OF BENEFIT

A member's annual allowance is determined by multiplying average salary by a benefit rate related to the member's age and job classification at retirement, and the resulting product by his creditable service. The amount determined by the benefit formula cannot exceed 80% of the member's highest three year (or five year salary as discussed below) average salary. For veterans as defined in G.L. c. 32, s. 1, there is an additional benefit of \$15 per year for each year of creditable service, up to a maximum of \$300.

- Salary is defined as gross regular compensation. For employees who become members after January 1, 2011, regular compensation is limited to 64% of the federal limit found in 26 U.S.C. 401(a)(17). In addition, regular compensation for members who retire after April 2, 2012 will be limited to prohibit "spiking" of a member's salary to increase the retirement benefit.
- For persons who became members prior to April 2, 2012, Average Salary is the average annual rate of regular compensation received during the 3 consecutive years that produce the highest average, or, if greater, during the last 3 years (whether or not consecutive) preceding retirement.
- For persons who became members on or after April 2, 2012, Average Salary is the average annual rate of regular compensation received during the 5 consecutive years that produce the highest average, or, if greater, during the last 5 years (whether or not consecutive) preceding retirement.
- The Benefit Rate varies with the member's retirement age. For persons who became members prior to April 2, 2012 the highest rate of 2.5% applies to Group 1 employees who retire at or after age 65, Group 2 employees who retire at or after age 60, and to Group 4 employees who retire at or after age 55. A .1% reduction is applied for each year of age under the maximum age for the member's group. For Group 2 employees who terminate from service under age 55, the benefit rate for a Group 1 employee shall be used.
- For persons who became members on or after April 2, 2012 and retire with less than 30 years of creditable service, the highest rate of 2.5% applies to Group 1 employees who retire at or after age 67, Group 2 employees who retire at or after age 62, and to Group 4 employees who retire at or after age 57. A .15% reduction is applied for each year of age under the maximum age for the member's group.
- For persons who became members on or after April 2, 2012 and retire with more than 30 years of creditable service, the highest rate of 2.5% applies to Group 1 employees who retire at or after age 67, Group 2 employees who retire at or after age 62, and to Group 4 employees who retire at or after age 55. A .125% reduction is applied for each year of age under the maximum age for the member's group.

## 10. SUMMARY OF PLAN PROVISIONS *(continued)*

### DEFERRED VESTED BENEFIT

A participant who has attained the requisite years of creditable service can elect to defer his or her retirement until a later date. Group 4 employees cannot defer beyond age 65. All participants must begin to receive a retirement allowance or withdraw their accumulated deductions no later than April 15 of the calendar year following the year they reach age 70½.

### WITHDRAWAL OF CONTRIBUTIONS

Member contributions may be withdrawn upon termination of employment. The interest rate for employees who first become members on or after January 1, 1984 who voluntarily withdraw their contributions with less than 10 years of service will be 3%. Interest payable on all other withdrawals will be set at regular interest.

### DISABILITY RETIREMENT

The Massachusetts Retirement Plan provides 2 types of disability retirement benefits:

#### ORDINARY DISABILITY

**Eligibility:** Non-veterans who become totally and permanently disabled by reason of a non-job related condition with at least 10 years of creditable service (or 15 years creditable service in systems in which the local option contained in G.L. c. 32, s.6(1) has not been adopted).

Veterans with ten years of creditable service who become totally and permanently disabled by reason of a non-job related condition prior to reaching “maximum age”. “Maximum age” applies only to employees classified in Group 4 who are subject to mandatory retirement.

**Retirement Allowance:** For persons who became members prior to April 2, 2012, the benefit is equal to the accrued superannuation retirement benefit as if the member was age 55. If the member is a veteran, the benefit is 50% of the member’s final rate of salary during the preceding 12 months, plus an annuity based upon accumulated member contributions plus credited interest. If the member is over age 55, he or she will receive not less than the superannuation allowance to which he or she is entitled.

For persons in Group 1 who became members on or after April 2, 2012, the benefit is equal to the accrued superannuation retirement benefit as if the member was age 60. If the member is a veteran, the benefit is 50% of the member’s final rate of salary during the preceding 12 months, plus an annuity based upon accumulated member contributions plus credited interest. If the member is over age 60, he or she will receive not less than the superannuation allowance to which he or she would have been entitled had they retired for superannuation.

## 10. SUMMARY OF PLAN PROVISIONS *(continued)*

### ORDINARY DISABILITY *(continued)*

For persons in Group 2 and Group 4 who became members on or after April 2, 2012, the benefit is equal to the accrued superannuation retirement benefit as if the member was age 55. If the member is a veteran, the benefit is 50% of the member's final rate of salary during the preceding 12 months, plus an annuity based upon accumulated member contributions plus credited interest. If the member is over age 55, he or she will receive not less than the superannuation allowance to which he or she is entitled

### ACCIDENTAL DISABILITY

**Eligibility:** Applies to members who become permanently and totally unable to perform the essential duties of the position as a result of a personal injury sustained or hazard undergone while in the performance of duties. There are no minimum age or service requirements.

**Retirement Allowance:** 72% of salary plus an annuity based on accumulated member contributions, with interest. This amount is not to exceed 100% of pay. For those who became members in service after January 1, 1988 or who have not been members in service continually since that date, the amount is limited to 75% of pay. There is an additional pension of \$797.64 per year (or \$312.00 per year in systems in which the local option contained in G.L. c. 32, s. 7(2)(a)(iii) has not been adopted), per child who is under 18 at the time of the member's retirement, with no age limitation if the child is mentally or physically incapacitated from earning. The additional pension may continue up to age 22 for any child who is a full time student at an accredited educational institution. For systems that have adopted Chapter 157 of the Acts of 2005, veterans as defined in G.L. c. 32, s. 1 receive an additional benefit of \$15 per year for each year of creditable service, up to a maximum of \$300.

### ACCIDENTAL DEATH

**Eligibility:** Applies to members who die as a result of a work-related injury or if the member was retired for accidental disability and the death was the natural and proximate result of the injury or hazard undergone on account of which such member was retired.

**Allowance:** An immediate payment to a named beneficiary equal to the accumulated deductions at the time of death, plus a pension equal to 72% of current salary and payable to the surviving spouse, dependent children or the dependent parent, plus a supplement of \$797.64 per year, per child (or \$312.00 per year in systems in which the local option contained in G.L. c. 32, s. 9(2)(d)(ii) has not been adopted), payable to the spouse or legal guardian until all dependent children reach age 18 or 22 if a full time student, unless mentally or physically incapacitated.

The surviving spouse of a member of a police or fire department or any corrections officer who, under specific and limited circumstances detailed in the statute, suffers an accident and is killed or sustains injuries while in the performance of his duties that results in his death, may receive a pension equal to the maximum salary for the position held by the member upon his death.

In addition, an eligible family member may receive a one time payment of \$100,000.00 from the State Retirement Board.

## 10. SUMMARY OF PLAN PROVISIONS *(continued)*

### DEATH AFTER ACCIDENTAL DISABILITY RETIREMENT

Effective November 7, 1996, Accidental Disability retirees were allowed to select Option C at retirement and provide a benefit for an eligible survivor. For Accidental Disability retirees prior to November 7, 1996, who could not select Option C, if the member's death is from a cause unrelated to the condition for which the member received accidental disability benefits, a surviving spouse will receive an annual allowance of \$6,000. For Systems that accept the provisions of Section 28 of Chapter 131 of the Acts of 2010 the amount of this benefit is \$9,000 and for Systems that accept the provisions of Section 65 of Chapter 139 of the Acts of 2012 the amount of this benefit is \$12,000.

### DEATH IN ACTIVE SERVICE

**Allowance:** An immediate allowance equal to that which would have been payable had the member retired and selected Option C on the day before his or her death. For a member who became a member prior to April 2, 2012 whose death occurred prior to the member's superannuation retirement age, the age 55 benefit rate is used. For a member classified in Group I who became a member on or after April 2, 2012 whose death occurred, the age 60 benefit rate is used. If the member died after age 60, the actual age is used. The minimum annual allowance payable to the surviving spouse of a member in service who dies with at least two years of creditable service is \$3,000 unless the retirement system has accepted the local option increasing this minimum annual allowance to \$6,000, provided that the member and the spouse were married for at least one year and living together on the member's date of death.

The surviving spouse of such a member in service receives an additional allowance equal to the sum of \$1,440 per year for the first child and \$1,080 per year for each additional child until all dependent children reach age 18 or 22 if a full time student, unless mentally or physically incapacitated.

### COST OF LIVING

If a system has accepted Chapter 17 of the Acts of 1997, and the Retirement Board votes to pay a cost of living increase (COLA) for that year, the percentage is determined based on the increase in the Consumer Price Index used for indexing Social Security benefits, but cannot exceed 3.0%. Section 51 of Chapter 127 of the Acts of 1999, if accepted, allows boards to grant COLA increases greater than that determined by CPI but not to exceed 3.0%. The first \$12,000 of a retiree's total allowance is subject to a COLA. The total COLA for periods from 1981 through 1996 is paid for by the Commonwealth of Massachusetts.

Under the provisions of Chapter 32, Section 103(j) inserted by Section 19 of Chapter 188 of the Acts of 2010, systems may increase the maximum base on which the COLA is calculated in multiples of \$1,000. Each increase must be accepted by a majority vote of the Retirement Board and approved by the legislative body.

## 10. SUMMARY OF PLAN PROVISIONS *(continued)*

### METHODS OF PAYMENT

A member may elect to receive his or her retirement allowance in one of 3 forms of payment.

**Option A:** Total annual allowance, payable in monthly installments, commencing at retirement and terminating at the member's death.

**Option B:** A reduced annual allowance, payable in monthly installments, commencing at retirement and terminating at the death of the member, provided, however, that if the total amount of the annuity portion received by the member is less than the amount of his or her accumulated deductions, including interest, the difference or balance of his accumulated deductions will be paid in a lump sum to the retiree's beneficiary or beneficiaries of choice.

**Option C:** A reduced annual allowance, payable in monthly installments, commencing at retirement. At the death of the retired employee, 2/3 of the allowance is payable to the member's designated beneficiary (who may be the spouse, or former spouse who is unmarried at the time of retirement for a member whose retirement becomes effective on or after February 2, 1992, child, parent, sister, or brother of the employee) for the life of the beneficiary. For members who retired on or after January 12, 1988, if the beneficiary pre-deceases the retiree, the benefit payable increases (or "pops up" to Option A) based on the factor used to determine the Option C benefit at retirement. For members who retired prior to January 12, 1988, if the System has accepted Section 288 of Chapter 194 of the Acts of 1998 and the beneficiary pre-deceases the retiree, the benefit payable "pops up" to Option A in the same fashion. The Option C became available to accidental disability retirees on November 7, 1996.

### ALLOCATION OF PENSION COSTS

If a member's total creditable service was partly earned by employment in more than one retirement system, the cost of the "pension portion" is allocated between the different systems pro rata based on the member's service within each retirement system. If a member received regular compensation concurrently from two or more systems on or after January 1, 2010, and was not vested in both systems as of January 1, 2010, such a pro-rata will not be undertaken. This is because such a person will receive a separate retirement allowance from each system.



## II. GLOSSARY OF TERMS

### ACTUARIAL ACCRUED LIABILITY

That portion of the Actuarial Present Value of pension plan benefits which is not provided by future Normal Costs or employee contributions. It is the portion of the Actuarial Present Value attributable to service rendered as of the Valuation Date.

### ACTUARIAL ASSUMPTIONS

Assumptions, based upon past experience or standard tables, used to predict the occurrence of future events affecting the amount and duration of pension benefits, such as: mortality, withdrawal, disablement and retirement; changes in compensation; rates of investment earnings and asset appreciation or depreciation; and any other relevant items.

### ACTUARIAL COST METHOD (OR FUNDING METHOD)

A procedure for allocating the Actuarial Present Value of all past and future pension plan benefits to the Normal Cost and the Actuarial Accrued Liability.

### ACTUARIAL GAIN OR LOSS (OR EXPERIENCE GAIN OR LOSS)

A measure of the difference between actual experience and that expected based upon the set of Actuarial Assumptions, during the period between two Actuarial Valuation dates.

**Note:** The effect on the Accrued Liability and/or the Normal Cost resulting from changes in the Actuarial Assumptions, the Actuarial Cost Method, or pension plan provisions would be described as such, not as an Actuarial Gain (Loss).

### ACTUARIAL PRESENT VALUE

The dollar value on the valuation date of all benefits expected to be paid to current members based upon the Actuarial Assumptions and the terms of the Plan.

### AMORTIZATION PAYMENT

That portion of the pension plan appropriation which represents payments made to pay interest on and the reduction of the Unfunded Accrued Liability.

## II. GLOSSARY OF TERMS *(continued)*

### ANNUAL STATEMENT

The statement submitted to PERAC each year that describes the asset holdings and Fund balances as of December 31 and the transactions during the calendar year that affected the financial condition of the retirement system.

### ANNUITY RESERVE FUND

The fund into which total accumulated deductions, including interest, is transferred at the time a member retires, and from which annuity payments are made.

### ANNUITY SAVINGS FUND

The fund in which employee contributions plus interest credited are held for active members and for former members who have not withdrawn their contributions and are not yet receiving a benefit (inactive members).

### ASSETS

The value of securities as described in Section VIII.

### COST OF BENEFITS

The estimated payment from the pension system for benefits for the fiscal year. This was the minimum amount payable during the first six years of some funding schedules.

### FUNDING SCHEDULE

The schedule based upon the most recently approved actuarial valuation which sets forth the amount which would be appropriated to the pension system in accordance with Section 22(6A), Section 22D or Section 22F of M.G.L. Chapter 32.

### GASB

Governmental Accounting Standards Board

## II. GLOSSARY OF TERMS *(continued)*

### NORMAL COST

Total Normal Cost is that portion of the Actuarial Present Value of pension plan benefits, which is to be paid in a single fiscal year. The Employee Normal Cost is the amount of the expected employee contributions for the fiscal year. The Employer Normal Cost is the difference between the Total Normal Cost and the Employee Normal Cost.

### PENSION FUND

The fund into which appropriation amounts as determined by PERAC are paid and from which pension benefits are paid.

### PENSION RESERVE FUND

The fund which shall be credited with all amounts set aside by a system for the purpose of establishing a reserve to meet future pension liabilities. These amounts would include excess interest earnings.

### SPECIAL FUND FOR MILITARY SERVICE CREDIT

The fund which is credited with amounts paid by the retirement board equal to the amount which would have been contributed by a member during a military leave of absence as if the member had remained in active service of the retirement board. In the event of retirement or a non-job related death, such amount is transferred to the Annuity Reserve Fund. In the event of termination prior to retirement or death, such amount shall be transferred to the Pension Fund.

### UNFUNDED ACCRUED LIABILITY

The excess of the Actuarial Accrued Liability over the Assets.

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